REPORT ON EXAMINATION

OF THE

PARK AVENUE

LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2003

State of Delaware

Department of Insurance

Dover, Delaware

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2003 of the

PARK AVENUE LIFE INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: ______________________

DATE: 21ST JUNE 2005

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 21ST DAY OF JUNE 2005.

INSURANCE COMMISSIONER • STATE OF DELAWARE

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Insurance Commissioner

____

Deputy Insurance Commissioner

REPORT ON EXAMINATION

OF THE

PARK AVENUE LIFE INSURANCE COMPANY

AS OF

December 31, 2003

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 21ST day of JUNE, 2005.

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April 13, 2005

Honorable Alfred W. Gross
Chairman Financial Condition,
Subcommittee, NAIC
2301 McGee, Suite 800
Kansas City, Missouri 64108-2604

Honorable Sally McCarthy, Commissioner
Secretary Midwestern Zone
Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Honorable Alfred W. Gross, Commissioner
Secretary Southeastern Zone
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable Susan F. Cogswell, Commissioner
Secretary Northeastern Zone
State of Connecticut
Department of Insurance
PO 816
Hartford, Connecticut 06142-0816

Honorable Merwin Stewart, Commissioner
Secretary Western Zone
State of Utah
Department of Insurance
State Office Building, #3110
Salt Lake City, Utah, 84114-1201

Honorable Matthew Denn, Commissioner
Delaware Department of Insurance
841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 03-047, dated October 29, 2003, an examination has been made of the affairs, financial condition and management of the

PARK AVENUE LIFE INSURANCE COMPANY

hereinafter referred to as “Company” or “PALIC”, incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the principal offices of the Company located at 7 Hanover Square, New York, NY 10004-2616. The examination report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was as of December 31, 1999. This examination covered the period of January 1, 2000 through December 31, 2003, and consisted of a general survey of the Company's business policies and practices, management and any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the examination date were reviewed where deemed necessary.

The report is presented on an exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were discussed with responsible company officials during the course of the examination.

The general procedures of the examination followed rules established by the National Association of Insurance Commissioners' ("NAIC") Committee on Financial Condition as set forth in the Examiner's Handbook.

In addition to items hereinafter incorporated as a part of the written report, the following were checked and made part of the work papers of this examination:

Corporate Records
Fidelity Bond and Other Corporate Insurance
NAIC Financial Ratios
Legal Actions
All Asset and Liability items not mentioned in this report
Subsequent Events

Work papers, which were prepared by the Company's external accounting firm, PricewaterhouseCoopers LLP ("PWC"), were reviewed and relied upon to the extent deemed necessary.

The examination was conducted concurrently with that of affiliate Guardian Insurance & Annuity Company, Inc. ("GIAC") also a Delaware domestic insurance company. Separate reports of examination were filed for each company.

HISTORY

The Company was incorporated as AM Life Insurance Company ("AM Life") under the laws of the Commonwealth of Massachusetts on November 19, 1964 and commenced business on April 9, 1965. It was chartered as a stock company to issue policies for life, annuities and accident and health insurance.

AM Life had been sponsored by and all of the outstanding stock had been held by AM Inc., a wholly owned subsidiary of the American Mutual Liability Insurance Company ("AMLICO") in Wakefield, Massachusetts.

In a transaction that occurred on January 13, 1987, but effective January 5, 1987, AM Life became part of a different insurance holding company system when:

- A Canadian corporation, The Cooperants Mutual Life Insurance Society ("Cooperants Mutual"), and three of its Canadian subsidiaries acquired from AMLICO all of the outstanding capital stock of AM Investors, Inc., and changed its name to Coop Massachusetts, Inc., a Massachusetts corporation;
- Coop Massachusetts, Inc. purchased all of the capital stock of the Delaware corporation, Coop USA, Inc.; and
- Coop USA, Inc. acquired from AMLICO all of the outstanding capital stock of AM Life. As part of the consideration for the acquisition, Coop USA, Inc. issued a promissory note to AMLICO and entered into a related pledge agreement. The agreement contained covenants to protect

> AMLICO's interest in the pledged collateral, including the maintenance of a minimum level of capital and surplus in the Company related to the indebtedness.

On September 11, 1987, Coop Massachusetts, Inc. was merged with and into Guardian Financial Corporation ("Guardian Financial"), a Delaware corporation (not affiliated with The Guardian Life Insurance Company or any of its affiliates). On September 15, 1987, Coop USA, Inc. was merged with and into Guardian Financial. Cooperants Mutual and the same three of its Canadian subsidiaries which formerly owned all of the stock of Coop Massachusetts, Inc., became the shareholders of all of the stock of Guardian Financial, and Guardian Financial became the sole owner of all of the outstanding stock of AM Life.

In January 1988, the Company entered into a five-year coinsurance indemnity reinsurance and administration agreement with Cooperants Mutual to reinsure, on a coinsurance basis, 100% of all business issued by Cooperants Mutual in the United States. On May 15, 1989, the Company and Cooperants Mutual established an escrow arrangement relative to this reinsurance agreement.

On April 1, 1988, AM Life changed its primary place of business from Wakefield, Massachusetts to Danvers, Massachusetts. On June 1, 1988, AM Life changed its name to First International Life Insurance Company ("First International").

At year-end 1988, 100% interest in Guardian Financial Corporation, the sole stockholder of First International, was transferred to Cooperants Group, Inc., a Quebec chartered holding company formed in January/February 1988. Cooperants Group, Inc. was wholly owned by Cooperants Mutual.

The Company entered into a stock purchase agreement dated November 15, 1988 with the Life Insurance Company of Virginia to purchase all the issued and outstanding shares of Premier Life Insurance Company of New York, and then known as Virginia Life Insurance Company of New York ("VLONY"). Activity in this regard continued during 1989 and, on August 1, 1989, the Company's acquisition of VLONY was completed; in conjunction therewith, the Company issued a surplus note for $5,000,000 to Guardian Financial Corporation.

In 1992, Cooperants Mutual filed for protection under Canadian bankruptcy laws and, as a result, Guardian Financial Corporation sold First International to Standard Management Corporation ("Standard Management" or "SMC"), an Indiana corporation. Effective July 10, 1992, Standard Management purchased all of the outstanding common stock of the Company from Guardian Financial Corporation pursuant to a Stock Purchase Agreement dated April 17, 1992.

On July 10, 1992, but effective July 1, 1992, subsequent to the closing of the sale of First International, Standard Management Corporation contributed all of the common stock of First International to its wholly owned life insurance company, Standard Life Insurance Company of Indiana ("Standard Life" or "SLIC").

In 1992, the Company changed its statutory address from Danvers, Massachusetts to Boston, Massachusetts. In December 1992, the Company moved its administrative offices from Danvers, Massachusetts to Indianapolis, Indiana.

On March 18, 1996, First International was purchased by The Guardian Insurance and Annuity Company, Inc. ("GIAC"), a subsidiary of The Guardian Life Insurance Company of America ("Guardian Life"), for $9,913,540, and GIAC also made a capital contribution of

$20,041,655. In December of 1996, Guardian Life purchased First International from GIAC for $29,955,195.

On October 22, 1996, First International was redomesticated to Delaware from Massachusetts. Effective September 9, 1997, the name of the entity was changed to Park Avenue Life Insurance Company (“PALIC”). The Company is awaiting approval for its name change from the State of Massachusetts.

As of December 31, 2003, capital stock of the Company consisted of 100,000 common shares authorized and outstanding at $25.00 par value per share for a total of $2,500,000 and gross paid in and contributed surplus was $240,141,332. In addition the Company paid a $35,000,000 dividend on December 23, 2003 to its parent GLIC that was ordinary in accordance with Title 18 section 5005 of the Delaware Insurance Code and was reported to and approved prior to payment by the Delaware Insurance Department.

The Company has two significant wholly owned subsidiaries, which were acquired in 1998, and are described as follows:

Family Service Life Insurance Company ("FSLIC"), purchased for $134,400,000 on June 1, 1998 by the Company, is domiciled in Texas. FSLIC's primary business is the administration of the Company’s individual life and annuity business. Although FSLIC is licensed in 43 states, the District of Columbia, and the U.S. Virgin Islands, it does not currently write new business.

Sentinel American Life Insurance Company ("SALIC"), a wholly owned subsidiary of FSLIC, was also purchased on June 1, 1998 by the Company, is domiciled in Texas. SALIC's primary business is the administration of the Company’s individual life and annuity business. Although SALIC is licensed in 12 states, it does not currently write new business.

MANAGEMENT AND CONTROL

The business affairs and corporate activities are vested in a Board of Directors that shall consist of not less than five members. The directors are elected for a term of one year at the annual stockholder's meeting which is held not less than 30 or more than 120 days after the end of the last preceding fiscal year.

The By-Laws provide that the Board of Directors may, by resolution passed by a majority, designate one or more committees that shall consist of two or more Directors. The Board of Directors has designated an Executive Committee and an Investment Committee to oversee Company operations.

The Executive Committee has any and all powers of the Board of Directors during the interval between Board meetings. The Investment Committee has general control and supervision over the financial affairs and accounts of the Company. The By-Laws provide that the findings of the committees shall be reported to the Board of Directors.

The Board of Directors and Officers, duly elected in accordance with the By-Laws and serving as of December 31, 2003, are as follows:

Directors	Principal Occupation
Armand Michael de Palo	Executive Vice President & Chief Actuary - Guardian Life
Robert Ernest Broatch	Executive Vice President & Chief Financial Officer - Guardian Life
Jeremy Starr	Vice President, Reinsurance
Edward Konrad Kane	Executive Vice President - Guardian Life
Dennis James Manning	President & Chief Executive Officer - Guardian Life
Joseph Anthony Caruso	Senior Vice President & Corporate Secretary - Guardian Life

Officers

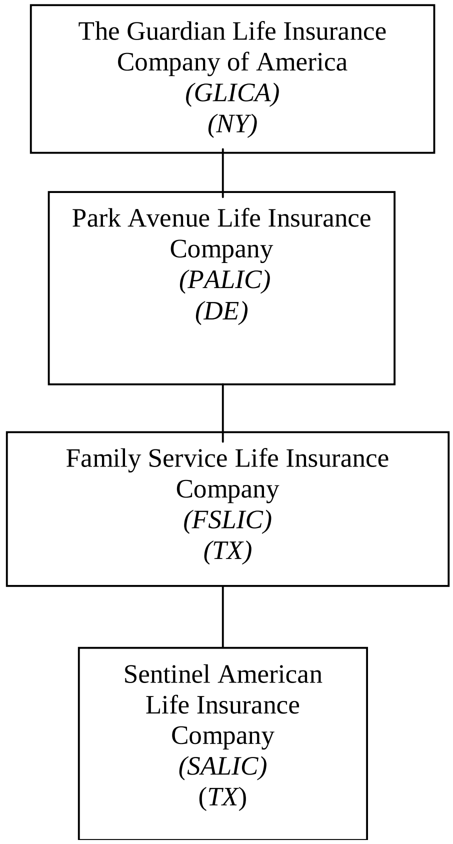
Armand Michael de Palo	President and Chief Executive Officer
Barry Ivan Belfer	Vice President, Corporate Finance & Treasurer
Roland Raymond Rose	Associate Actuary
Joseph Anthony Caruso	Senior Vice President and Corporate Secretary
Alan Robert Bialeck	Vice President, Tax
John Robert Hurley	Vice President, Government Relations
Stuart John Shaw	Vice President, Group Products
Jeremy Starr	Vice President, Reinsurance
Alphonsus Lawrence Padavano	Assistant Vice President & Controller
Thomas George Sorell	Executive Vice President & Chief Investment Officer
Karen Farnsworth-Einsidler	Vice President, Investment & Real Estate Counsel

HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined under Chapter 50, “Insurance Holding Companies” of the Delaware Insurance Code. The Company operates under the immediate and ultimate controlling parent, Guardian Life. Guardian Life is the fourth largest mutual life insurance company in America domiciled in the State of New York, with consolidated admitted assets of $21.7 billion, liabilities of $19.1 billion and surplus of $2.6 billion as of December 31, 2003. Guardian Life on behalf of the Company in the State of Delaware files a Holding Company Registration Statement and with other states as required.

The following is an organizational chart provided by the Company as of December 31, 2003.

Organizational Chart
Effective December 31, 2003



MANAGEMENT AND SERVICE AGREEMENTS

Intercompany Agreement for Services and Reimbursement between PALIC and Guardian Life

The Company has entered into an agreement with Guardian Life, pursuant to which Guardian Life provides office space, furniture, equipment, heat and light, clerical staff, and employee benefits.

The Company is billed quarterly by Guardian Life for all compensation and related employee benefits for those employees of Guardian Life who are engaged in the Company's business and for the Company's use of Guardian Life's centralized services. The amounts charged for these services amounted to $835,000 in 2003, $1,145,000 in 2002, $1,535,000 in 2001 and $1,954,000 in 2000.

Expenses are allocated using Guardian Life's cost accounting system. Expenses are allocated to PALIC based upon the services provided by various departments as determined by either the department's supervising officer, manager or through an allocation developed by Guardian Life's cost accounting department utilizing asset information, head count or overhead information. The agreement was amended July 19, 2001 to reflect changes in Guardian Life's corporate structure, and filed with the Delaware Insurance Department on August 21, 2001.

Tax Allocation Agreement between PALIC and Guardian Life

The Company entered into a tax allocation agreement effective January 1, 1998 with Guardian Life to file its federal income tax on a consolidated basis. The tax liability is allocated to the members of the group in the ratio that each member's separate return tax liability for the year bears to the sum of the separate return tax liabilities of all the members. However, the tax charge shall not exceed the amount that would be paid had the member filed on an individual basis. The agreement was amended July 19, 2001 to reflect changes in Guardian Life's corporate structure, and filed with the Delaware Insurance Department on August 21, 2001. Prior to the above-mentioned tax allocation agreement the Company filed its return on a stand-alone basis.

TERRITORY AND PLAN OF OPERATION

At December 31, 2003, the Company was authorized to transact the business of insurance in all states and the District of Columbia, except Hawaii and New York.

The Company's primary business is the administration of life insurance (principally term and universal life products) and has not written any new business since May 1, 1992.

Policy administration of business acquired is handled by one of two basic methods. In certain situations the original writing company benefits on the sale of the business, but retains administrative duties in respect of the business. After prescribed service standards are agreed upon, a service agreement will be entered into between the parties. In those situations in which either the level of service provided by the original writing company is deemed inadequate or the original writing company does not want to retain administrative responsibilities, a third party administrator ("TPA") will be used.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the five preceding years:

Year	Admitted Assets	Capital & Surplus	Premiums & Annuity Considerations	Net Income
2003	$523,156,066	$166,533,554	$16,885,025	$34,561,108
2002	$565,737,202	$182,124,157	$6,618,628	$17,754,613
2001	$582,198,164	$159,106,346	$52,340,930	$3,924,901
2000	$554,173,412	$142,091,661	$76,577,668	$(9,329,777)
1999	$445,057,538	$124,577,831	$240,323,010	$9,499,374

Since December 31, 1999, the Company's financial results were as follows:

- ❑ A 17.5 % increase in admitted assets
- ❑ A 33.7 % increase in capital and surplus
- ❑ A 93 % decrease in premiums and annuity considerations
- ❑ A 263.8 % increase in net income

The decrease in admitted assets and capital and surplus between the most recent years of 2002-2003 was mainly attributable to a thirty-five ($35) million dollar dividend paid to its parent. Since the Company is not writing any new business, premium writings have steadily decreased. In the year 2003, the increase in net income from the prior year was mostly due to the receipt of a thirteen ($13) million dollar dividend received from FSLIC.

REINSURANCE

Other than affiliated company transactions, third party administrators that conduct underwriting, premium collection and claim payment services, manage the reinsurance operations of the Company under service agreements.

Assumed

The Company has coinsurance agreements with the following unaffiliated companies:

Type of Contract	Effective Date	Line of Business	Limits	Amount Inforce
Coinsurance	9/30/96	A closed block of paid-up life insurance and annuity policies with approximately $20,602,000 in reserves.	100 %	$ 58,318,000
Coinsurance	12/31/99	A closed block of paid-up pre-need and final expense life insurance policies and annuity contracts for funeral related business with approximately $254,465,000 in reserves.	100 %	$360,245,000
Coinsurance	1/1/00	Term insurance & annuities/ individual and group life and annuities. The GIAC (affiliate) assigned all of its interest under its prior assumed agreements dated 1/1/96 for Blocks II & III business with approximately $3,327,000 in reserves.	100% quota share of the net risks	$167,594,002
Coinsurance	2/1/00	Combined agreements same reinsured: Credit life and credit accident and health that the ceding company reinsured with other companies. Credit life and credit accident and health that the ceding company also reinsured with other companies. Combined approximate $8,086,000 in reserves. Effective 12/31/00 business was 100% ceded. Refer to agreements denoted with an * in the ceded section of this report.	 90% quota share of the ceding company's net liability 100 % quota share of the ceding co.'s net liability	$ 377,297,000
		Total		$ 963,454,002

Ceded

The Company primarily entered into coinsurance, modified coinsurance and yearly renewable term agreements to provide for reinsurance of selected individual life and annuities, group life and annuities and credit life and credit accident and health policies described as follows:

Affiliated Company:

Risks ceded to Guardian Life, consisted of policies in force amounting to $51,552,900 or approximately 9.22% of all of the reinsured policies in force of $558,887,807 and the agreement in effect as of December 31, 2003 is as follows:

Type of Contract	Effective Date	Line of Business	Retention/ Limits	Amount In Force
Modified Coinsurance/ Retrocession	9/30/96	A block of paid-up permanent and term policies as of 9/30/96.	10%/90% quota share of the risks	$ 51,552,900

Non-affiliated Companies:

The Company primarily entered into new coinsurance agreements and a stop loss indemnity contract during the examination period, including 100% cessions of business that was previously assumed. The agreements are described as follows:

Type of Contract	Effective Date	Line of Business	Retention	Amount Inforce
Modified Coinsurance	1/1/96	Individual life and annuity, group life and annuity and supplementary contracts.	None	$ 67,537,913
Indemnity Stop Loss	1/1/00	Credit accident & health and group certificates.	None	-

Indemnity	1/1/00	Basic credit accident & health and group certificates produced by auto or financing arms of auto dealerships on an earned premium and paid loss basis.	None/100% quota share	-
Coinsurance/ Retrocession	1/1/00	Basic credit accident & health and group certificates produced by auto or financing arms of auto dealerships.	None/100% quota share	-
Coinsurance	2/1/00	Indemnity reinsurance with an unauthorized insurer on an earned premium and paid loss basis for credit life and credit accident and health. Reserve credit taken amounted to $2,045,861.	None/100% quota share	-
Coinsurance/ Retrocession	12/31/00	* Ceded agreements with the same reinsurer for credit life and credit accident and health. Relates to the assumed reinsurance combined agreements discussed in that section of this report.	10%, then none effective 10/1/02	$ 377,297,000
			Total	$ 444,834,913

PALIC ceded approximately 62.1% or $27,681,474 of its total written premiums and annuity considerations of $44,566,499 in 2003.

Disclosure in the General Interrogatories

No disclosure was made in the General Interrogatories, asset investment schedules and or Special Deposit Schedule in each of the 2000-2003 Annual Statements that certain assets with an approximate market value of $344,612,000 as of December 31, 2003 were being held in trust for a reinsured company. The Annual Statement Instructions indicate that for the purpose of the Investment section of the General Interrogatories, "exclusive control", “means that the company has the exclusive right to dispose of the investment at will, without the necessity of making a substitution therefore.” In addition, such assets are to be individually identified in the asset schedules by placing the symbol of “C” (pledged as other) in the * column of the appropriate investment schedule. Although these assets are owned by the Company, due to the nature of the reinsurance and trust agreements, the Company did not have exclusive control of their investments.

It is recommended that the Company comply with the Annual Statement Instructions by disclosing in the General Interrogatories Section, the detailed nature of its investments that are set apart from its general assets and are not under its exclusive control. In addition, these assets should be identified in the asset schedules by placing the symbol of “C” (pledged as other) in * column of the appropriate investment schedule.

ACCOUNTS AND RECORDS

In accordance with the service agreement previously discussed under the section captioned "Management and Service Agreements", Guardian Life provides the services and personnel necessary for the Company to conduct its operations. The accounts and records reviewed included an evaluation of the Company’s operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure, and the processing structure. The Company’s accounts and records are maintained in the New York, New York and Bethlehem, Pennsylvania offices. The Company utilizes The Guardian’s mainframe located in Bethlehem for processing, updating, and storing the primary records of the company. Personal computers and file servers support financial reporting and analysis. In general, it has been determined that the Company has a sufficient level of controls in place for all of the above areas. The company performs full system backups and rotates copies of programs and data files to its off-site storage facility on a weekly basis. The Company has a disaster recovery plan that covers its mainframe operations that is periodically tested. It was determined that controls surrounding the electronic data processing environment were adequate.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2003.

Analysis of Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Capital and Surplus Account
Examination and Surplus Changes

It should be noted that the various schedules and exhibits might not add to the totals shown due to rounding. With the exception of the Aggregate Reserve on Life Policies and Contracts account, write-ups on the individual accounts in the Notes to the Financial Statements section of this report are presented on an "exception basis". As such, only comments relative to adverse findings, material financial changes or other significant regulatory concerns are noted.

Based on the results of the work performed during the examination, no financial adjustments were made for examination purposes.

Analysis of Assets

December 31, 2003

	Ledger Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	$379,787,706	$-0-	$379,787,706	
Preferred stocks	910,330	-0-	910,330	
Common stocks	110,112,398	18,719,919	91,392,479	
Cash & short-term investments	1,345,589	-0-	1,345,589	
Contract loans	4,904,094	-0-	4,904,094	
Investment income due and accrued	7,300,583	-0-	7,300,583	
Uncollected premiums & agents' balances	374,681	-0-	374,681	
Deferred premiums not yet due	5,019,317	-0-	5,019,317	
Funds held by or deposited with reinsured companies	25,516,242	-0-	25,516,242	
Net deferred tax asset	20,448,004	17,004,336	3,443,668	
Health care amount receivable	10,738	10,738	-0-	
Accounts receivable	3,190,961	29,584	3,161,377	
Total Assets	$558,920,642	$35,764,576	$523,156,066	

Liabilities, Surplus and Other Funds

December 31, 2003

		Note
Aggregate reserve for life policies and contracts	$309,824,167	1
Liability for deposit-type contracts	6,100,892	
Policy and contract claims: Life	2,917,911	
Premiums and annuity considerations received in advance	147,562	
Interest maintenance reserve	2,289,950	
Commissions and expense allowances payable on reinsurance assumed	28,872	
Taxes, licenses and fees due or accrued	435,000	
Current federal & foreign income taxes	2,907,976	
Unearned investment income	114,909	
Amounts withheld or retained by Company as agent or trustee	90,507	
Amounts held for agents' account	125,172	
Remittances and items not allocated	3,379,351	
Asset Valuation Reserve	2,033,976	
Funds held under reinsurance treaties with unauthorized reinsurers	1,032,000	
Payable to parent, subsidiaries and affiliates	362,587	
Funds held under coinsurance	24,484,242	
Escrow funds retired lives reserve	347,438	
Total Liabilities	$356,622,512	
Common capital stock	$2,500,000	
Gross paid in and contributed surplus	240,141,332	
Unassigned funds (surplus)	(76,107,778)	
Total Capital and Surplus	$166,533,554	
Total Liabilities, Surplus and Other Funds	$523,156,066	

Summary of Operations

Year Ended December 31, 2003

Premiums and annuity considerations	$16,885,025
Net investment income	40,225,156
Amortization of interest maintenance reserve	350,273
Commissions and expense allowances on reinsurance ceded	31,735,712
Reserve adjustments on reinsurance ceded	(982,585)
Aggregate write-ins for miscellaneous income	(1,382)
Total Income	$88,212,199
Death benefits	$25,345,177
Mature endowments	9,375
Annuity benefits	2,989,785
Disability benefits and benefits under accident and health policies	221,082
Surrender benefits and other fund withdrawals	2,900,863
Interest on policy or contract funds	(375,181)
Payments on supplementary contracts with life contingencies	35,264
Increase in aggregate reserves for life and accident and health policies and contracts	(4,893,641)
Commissions on premiums and annuity considerations	230,439
Commissions and expense allowances on reinsurance assumed	19,988,031
General insurance expenses	1,154,289
Insurance taxes, licenses and fees	476,519
Increase in loading on deferred and uncollected premiums	(550,988)
Miscellaneous loss	(9,447)
Total Expenses	$47,521,567
Net gain from operations before dividends to policyholders and federal income taxes	40,690,631
Dividends to policyholders	(28,699)
Net gain from operations after dividends to policyholders and before federal income taxes	40,719,330
Federal income taxes incurred	5,000,512
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains	35,718,818
Net realized capital gains (loss)	(1,157,710)
Net Income	$34,561,108

Capital and Surplus Account

December 31, 2002 to December 31, 2003

Capital and Surplus, December 31, 2002	$182,124,157
Net income	34,561,108
Change in net unrealized capital gains (losses)	(12,061,943)
Change in net deferred income tax	3,441,368
Change in non-admitted assets and related items	9,326,344
Change in asset valuation reserve	(2,033,976)
Surplus adjustments: Change in surplus as a result of reinsurance	(13,823,504)
Dividends to stockholders	(35,000,000)
Net change in capital and surplus for the year	(15,590,603)
Capital and Surplus, December 31, 2003	$166,533,554

Schedule of Examination Adjustments

No financial adjustments were made for examination report purposes.

NOTES TO THE FINANCIAL STATEMENTS

1. Aggregate Reserve for Life Policies and Contracts $309,824,167

The above captioned amount is the same as that reported by the Company in its 2003 Annual Statement. The reserve breakdown in Exhibit 5, by type of benefit, is presented in the following table:

Reserve Segment	Total (Gross)	Reinsurance Ceded	Total (Net)
Life Insurance	$ 248,269,894	$8,503,673	$239,766,221
Annuities	65,686,760	0	65,686,760
Supplementary Contracts	171,354	0	171,354
Accidental Death Benefits	18,797	993	17,804
Disability - Active Lives	86,845	16,956	69,889
Disability – Disabled Lives	825,066	21,777	803,289
Miscellaneous Reserves	3,308,850	0	3,308,850
Total	$318,367,566	$8,543,399	$309,824,167

Most of the aggregate life reserve is held for closed blocks of ordinary life insurance, fixed and flexible premium universal life insurance and deferred annuity business. This includes both the direct-written business as well as assumed business.

Although PALIC holds reserves for closed blocks of direct-written life insurance business, its primary focus is the assumption or acquisition of closed blocks of business. As of December 31, 2003, PALIC had assumed four blocks of business from other insurers. A review of the Company's major reinsurance agreements indicates the legitimate transfer of risk, as required by Regulation 1002 of the Delaware Insurance Code. The business assumed consists largely of traditional ordinary life, smaller blocks of term, interest sensitive life and fixed deferred annuity policies. Credit life and disability insurance is also assumed but this business is

100% retroceded to outside reinsurers. The closed blocks of direct business are administered by third party administrators ("TPA") and the assumed business is administered directly by the ceding companies or their TPAs.

The Department's consulting actuary INS Consultants Inc., ("INS") performed the valuation review of Park Avenue's December 31, 2003 reserves and prepared the Certificate of Reserve Valuation. During that process, summary work papers were reviewed and found to be in order. Actuarial Opinions and Reliance Statements from TPA and ceding company officials were also reviewed and found to be in order. Reserves were reconciled from the summary work papers to Exhibit 5. Reserves for all blocks revealed stable trends for the period under examination.

INS performed an in-depth review of the Actuarial Opinion Memoranda ("AOM") for all four years under examination. As a result of the asset adequacy/cash flow testing analysis ("CFT"), performed annually as part of the AOM, PALIC's appointed actuary concluded that additional reserves were not required for any of the four years under examination. The review performed by INS while not questioning the opinion of the Company appointed actuary noted weakness in the AOM reports. The following recommendations are hereby made to address the noted weakness.

- **A more thorough discussion or table summarizing the quality and nature of assets supporting all actuarial liabilities, including those actuarial liabilities not covered by CFT analysis.**
- **If data files prior to year-end are used for CFT analysis, include a tabular presentation of liabilities as of both dates, showing in more detail the portions subject and not subject to cash flow testing.**

- **Reconcile liabilities tested to beginning liabilities as listed in the scenario reports.**
- **A longer projection period such that approximately 10% of the initial in force business remains at the end of the projection period.**

The examination included a verification of the accuracy of the underlying data used to calculate reserves, but only for the blocks of direct-written business. Samples of randomly selected policies from the Company's direct-written business segments were used to test the validity of valuation data. There were no errors found in the underlying data used for valuation in the samples tested. Inclusion testing was also performed in order to gain confidence that the valuation extract files are essentially complete. The data validity and inclusion testing indicate that the valuation extract files are complete and accurate.

SUMMARY OF RECOMMENDATIONS

Reinsurance - It is recommended that the Company comply with Annual Statement Instructions by disclosing in the General Interrogatories Section, the detailed nature of its investments that are set apart from its general assets and are not under its exclusive control. In addition, these assets should be identified in the asset schedules by placing the symbol of "C" (pledged as other) in the * column of the appropriate investment schedule. (Page 16)

Aggregate Reserve for Life Policies and Contracts - in future AOM reports it is recommended:

- A more thorough discussion or table summarizing the quality and nature of assets supporting all actuarial liabilities, including those actuarial liabilities not covered by CFT analysis.

- If data files prior to year-end are used for CFT analysis, include a tabular presentation of liabilities as of both dates, showing in more detail the portions subject and not subject to cash flow testing.
- Reconcile liabilities tested to beginning liabilities as listed in the scenario reports.
- A longer projection period such that approximately 10% of the initial in force business remains at the end of the projection period. (Pages 23-24)

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Description	December 31, 2003	December 31, 1999
Assets	$523,156,066	$445,057,538
Liabilities	356,622,512	320,479,707
Capital and Surplus	166,533,554	124,577,831

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc., is acknowledged.

Respectfully submitted,

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